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WASHINGTON NOTES

THE NEW BANKING ACT

The passage of the banking and currency bill by the Senate on December 19 brings the close of the process of preparation and congressional controversy which has now lasted a good deal more than a year; while, of course, the movement of which it was the outgrowth is the product of nearly twenty years of continuous effort. The final episode of the contest for currency legislation was reached on December 2, when a senatorial caucus completed its consideration of the bill as reported by the Senate Committee on Banking and Currency a few days previously (November 22). When reported from the committee in question, the bill was accompanied by Senate Report No. 133 (63d Cong., 1st sess.) and by minority views embodying a rival bill. During the latter part of the struggle in the Senate Banking Committee, it proved so far out of the question to obtain the assent of the majority to any distinct series of proposals that the committee divided into two sections, one including six Democrats, the other, one Democrat and five Republicans, the former group being referred to by courtesy as the "majority." In reporting a modified draft of the House bill, the so-called majority yielded to the strong representations of the administration by striking out most of the provisions calling for wide departures from the terms of the House measure that had been inserted during the earlier stages of discussion. In its ultimate form, the majority draft, however, made the following significant innovations upon the House bill:

1. Alteration of the conditions under which federal reserve banks are to be organized, by providing for a new class of stock to be sold to the public, or in default of public subscription to be allotted to the United States if not taken up by existing banks.
2. Limitation of the number of reserve banks to be established to not less than eight nor more than twelve, as against the "at least twelve" provision of the House measure.
3. Broadening of the powers of the Federal Reserve Board by assigning it various new functions of a secondary character, and at the same time removing some restrictions upon its action in ordering rediscounts by one reserve bank in favor of another, which had been inserted during the time the bill was in the House Banking Committee.
4. Provision that federal reserve notes and other bank notes may be permitted by the Reserve Board to be used as reserves by banks.
5. Provision for compulsory purchase of \$25,000,000 of 2 per cent bonds by federal reserve banks each year, such bonds to be used by the

reserve banks at their option to protect the bank notes, identical with existing national bank notes, which are to be taken out by them. Such bonds would, however, be purchased only at the request of existing holders (national banks) and would be used as a basis for circulation only if the federal reserve banks desired. If a request were made by the latter, the bonds might be funded into 3 per cent securities without the circulation privilege.

6. Alteration of the rediscount sections so as to broaden the rediscount powers and to permit, in addition, the use of domestic acceptances by member banks.

7. Elimination of the savings-bank provisions of the House bill.

8. Reduction of the amount of reserves to be required of national banks to 15 and 12 per cent respectively for reserve city and country banks, as against 18 and 12 in the House bill. At the same time the period within which the reserves are to be paid in is somewhat lengthened and the conditions lightened.

9. Reduction of the required contribution of capitalization from 20 per cent of the existing capital of member banks to 6 per cent of their capital and surplus, one-half to be paid in within a specified time.

Of these points the Senate succeeded in conference committee in maintaining Nos. 1, 2, 3, 5, 7, and 9 in modified forms, while Nos. 4 and 6 were rejected at the instance of the House, and a compromise was effected in regard to No. 8. Most of the points upon which concessions were made represented the views of the House leaders, as to which they had been unsuccessful in getting affirmative action in the lower chamber.

The debate in the Senate has followed familiar lines and has not contributed much to the amelioration of the terms of the bill, or to the better diffusion of sound ideas on money and banking.

ARGUMENTS FOR HIGHER RAILROAD RATES

Discussion of the proposed increase of 5 per cent in the rates of railroads in eastern classification territory has now been fairly started at hearings before the Interstate Commerce Commission. Only the side of the railroads has thus far been presented. They have succeeded in making an extremely clear showing with reference to revenue conditions, demonstrating the difficult situation in which they are placed both by the constant growth of demands of labor, largely assented to during the past year as a result of arbitration proceedings, and by the demands of the public for better facilities, greater safety of operation, and larger

crews on trains. The plan for the further conduct of the hearings provides for the completion of the railroads' case and then for the presentation of the shippers' arguments with a rejoinder by the roads. Already a very serious difference of opinion among shippers has become evident, some groups of shippers being positive in their opposition to an advance in rates, while others are inclined to continue their support of the railroads' position. It seems evident, however, from what has already been done, that the contest will finally settle down to an analysis of railroad revenue and its adequacy to maintain existing obligations and dividends. In this connection, the railroads have made a convincing showing, pointing out particularly that expenses have increased so much faster than revenues that the net operating income of eastern railroads for 1913 was \$16,311,000 less than it was in 1910, notwithstanding the fact that more than \$650,000,000 of new money had been put into the properties in that time. In general the roads in their preliminary briefs have made the following points:

1. The revenue received from the operation of these railroad systems had attained the sum of \$1,205,155,435 in 1910. The increase in 1911 was some \$14,000,000; 1912 maintained this gain and added to it \$38,000,000. In 1913 this revenue had grown to \$1,386,073,429. This showed an increase in revenue of \$181,000,000 for the three years 1910-13.

The largest item of this revenue was, of course, that derived from carrying freight. This was, in 1910, \$860,403,390. Passenger fares collected amounted to a little less than one-third of this sum, or \$260,234,927. The increased receipts from freight charges, in 1912 and 1913, over each preceding year were, successively, \$30,000,000 and \$105,000,000, while the receipts of 1911 showed a decrease from 1910 of \$3,000,000; in the same years the passenger department receipts increased \$14,000,000, \$5,000,000, and \$14,000,000. Thus passenger and freight receipts were, in the year 1913, \$105,000,000 in excess of what they had been in 1910.

2. With reference to the use of the money the roads have pointed out that there are three items which make up between 90 and 95 per cent of the expense of operation of a railway, these being in order of magnitude, transportation, maintenance of equipment, and maintenance of way. The forty-nine roads in question spent \$410,734,001 for transportation charges in 1910. Their maintenance of equipment consumed \$195,726,105, while maintenance of track, bridges, and the like demanded an expenditure of \$145,273,235. As the total expense for running the rail-

ways in 1910 was \$800,662,522 it is urged that the three items mentioned accounted for more than \$750,000,000, or about fifteen-sixteenths, of the money paid out. The amounts increased steadily from year to year during 1911-13, until in 1913 the increase over the year 1910 amounted to \$92,000,000 in transportation charges, \$51,000,000 in maintenance of equipment charges, and \$35,000,000 in maintenance of way charges.

3. The railroads paid out in taxes for the successive years 1910-13 \$43,140,475; \$45,898,383; \$51,055,738, and \$53,946,004. Thus the percentage of increase in taxes in 1913 over 1910 was 23.6 per cent.

4. As a result, the operating income showed a loss in three years of about \$16,000,000, notwithstanding an increase in annual receipts of more than \$180,000,000. Stated in terms of miles, the cash received was greater in 1913 than 1910 by \$2,819 per mile or 13.7 per cent, yet the increase in expenses more than balanced this increase and resulted in a decrease in operating income of \$312, or 5 per cent per mile.

The substance of the roads' case is practically summed up in the foregoing digest and has undoubtedly produced a strong impression both in Congress and upon the minds of the Interstate Commerce Commission members and of rate experts in their employ. Added to the financial showing just made, there has been a very convincing argument with respect to the difficulty of getting capital at reasonable rates under existing conditions, and the consequent difficulty of funding indebtedness into long-term obligations.

RAILROAD SECURITIES AND FINANCIAL CONDITIONS

The developments in the case of the railroads before the Interstate Commerce Commission have brought to light conditions in the banking system which have been known to close students but have not been generally recognized. The banks of the country have for some years past been obliged to finance the current needs of the railroads by short loans, because of the inability of the latter organizations to borrow from the general public. The public itself has been unwilling to take up long-term bonds because of its fear that the railways, under existing conditions, might not be able to meet their obligations readily. It has been willing to take a certain amount of short-term notes running one, two, and three years, but these notes have had to be constantly renewed, and during the year 1914 an unexpectedly large amount of them will require refunding, an operation that will necessitate rather extensive financial readjustments. Many of the notes have been carried by banks and

trust companies and constitute a considerable part of their assets. In not a few instances, institutions which took over such securities have found themselves obliged to continue carrying them, owing to unexpected inability to sell to investors. The consequence of this condition has been to render a large part of the banks' funds non-liquid, and ultimate liquidation appears to depend upon action placing the railroads in such a position as to render possible the restoration of confidence on the part of investors as a body. Of late the lack of such confidence in the United States has been aggravated by the action of European holders of the short-term securities referred to in sending to the United States large blocks of the notes issued by American railways. This they have done, partly because they distrusted the business outlook in this country and partly because they found that an easy way to avoid shipments of gold which they were unwilling to make in consequence of the strained banking situation due to the waste of capital which has resulted from the constant warfare in Southeastern Europe during the past year. The fact that the banks are burdened with railroad securities in such a way has greatly intensified the pressure that is being brought to bear upon the government in behalf of an advance in rates. Additional urgency is lent by the depression of business in the steel industry, due to the inability of the roads, with their present revenues, to make new contracts for rails and equipment. On the other hand, those who regard the rate increase as desirable find themselves in an embarrassing dilemma, because of the apparent power of railroad employees' organizations to exact from the roads a constantly increasing measure of their earnings in the form of higher wages. Such increases granted during the past year, in fact, constitute one of the immediate causes of the difficulties under which the roads are now suffering. There is no assurance whatever that if the desired advances were to be granted, the roads would long be able to retain them, and to use the funds thus obtained for the purpose of providing better equipment or of disposing more satisfactorily of their maturing obligations. That the Interstate Commerce Commission will practically be driven to a general survey of the railroad situation in many aspects that are broader than the immediate financial condition of the lines themselves is evident, inasmuch as their indirect relations with labor and with banking institutions are so important a factor in the problem now to be solved. The complexity of the situation foreshadows a much greater delay in reaching a decision regarding the proposed rate advances than had been expected.

DEVELOPMENT OF THE ANTI-TRUST PROGRAM

The first official statement of the anti-trust policy of the Wilson administration is afforded by the report of Secretary Redfield of the Department of Commerce (*Report of the Department of Commerce for 1913*) made public December 15. In this report Mr. Redfield furnishes an outline of proposed methods of investigation and proposed types of legislation which he believes to be desirable with respect to the control of corporate effort. Whatever is actually done by the Wilson administration during the coming year, or later, toward the restriction of corporations, the plans with which a beginning is made, as now set forth in the report of the Secretary of Commerce, will have distinct significance as showing the point of view from which a start was taken. Secretary Redfield's outline of suggestions includes first of all an inquiry into the condition and efficiency of industrial combinations. On this point he says that "there is a growing question in the minds of experienced and thoughtful men as to whether the trust form of organization is industrially efficient and whether bigness of bulk is always necessary to production at the lowest cost. . . . It is significant that some of the great trusts have ceased to exist, that others pay but moderate dividends, if any, on their securities and that side by side with the most mighty and supposedly the most efficient of them have grown up independent organizations quite as successful and perhaps earning even more upon their capital than their powerful competitors. Furthermore, it is undoubtedly true that many of the most profitable businesses of the country are those of moderate size, and that this is so even in lines where large concerns exist of apparently less earning capacity. . . . The purpose of the Bureau of Corporations is to study patiently into the historical facts, financial facts . . . and the like." A second element in the program recommended by the Department is the ascertainment of the conditions under which retail prices are actually fixed in order to determine "whether giving the privilege of fixing prices to a manufacturer tends toward monopoly or does not so tend." Third, it is desired to have an extensive inquiry into the cost of production of various kinds of commodities, apparently with a view of making clear whether or not the costs thus ascertained are lower or higher in so-called "trust" plants than they are elsewhere. Meanwhile it is announced that actual investigations of trade agreements are under way in order to determine what agreements, if any, are actually in restraint of trade and what ones, if any, are likely to be of assistance to competition and hence

properly to be exempted from the operation of the Sherman act. This is apparently a concealed suggestion that labor organizations may well be given the kind of exemption referred to. Finally, it is stated that an inquiry has been undertaken with reference to the actual status of agreements governing the resale price of various articles as they pass from producer and manufacturer to jobber and retailer. Secretary Redfield's suggestions afford merely the background upon which the new anti-trust policy of the administration is to be sketched in during the next few months, but it gives the clue to the general line of reasoning that will govern in formulating this policy and seems to foreshadow a good deal of delay in carrying it out.

THE GOVERNMENT IN BUSINESS

The fact that the government of the United States is now fully and extensively engaged in the operation of a large business enterprise is not generally realized, but it is made clear in the statements of the Post-Office Department with reference to the management of the parcel-post service. That report (*Report of the Postmaster-General, 1913*) shows that within the past year the Department has practically entered upon an enormous undertaking, doing work and supplying demands which in part were formerly provided for by the express companies and in part were not provided for at all, much of the business having come into existence as a result of the offer of the service. Approximately 300,000,000 parcels were handled during the first six months of the operation of the system after January 1, 1913. Subsequent reports are showing an even greater relative growth in the amount of business done. In consequence of this great development, the weight limit as to parcels was increased from 11 to 20 pounds on August 15, 1913, and is now to be increased to 50 pounds within the first and second zones of operation; at the same time the rates are to be cut in all zones except the first and second (where cuts had already taken place when the first increase in size was made), and in the seventh and eighth in which reductions are not believed to be warranted, inasmuch as these zones represent long-distance traffic. The effect of the apparent success of the parcel-post service—a success thus far due in some measure to the fact that Congress has made no adequate provision for paying the railroads for the additional transportation labor imposed upon them—has been the very great advancement of a movement for government ownership of telegraphs and telephones, already under way prior to the time that the

parcel post was inaugurated. The movement toward government ownership is now directly supported by the Postmaster-General, representing the Wilson administration, inasmuch as he states that: "The monopolistic nature of the telegraph business makes it of vital importance to the people that it be conducted by unselfish interests, and this can be accomplished only through government ownership." He further announces for the first time the results of an investigation designed to "exhibit the nature of the problem involved in securing government ownership and control of existing facilities." Thus, beside taking a long step into the actual field of industrial enterprise, the way has been paved for the acquisition of another large group of businesses and for their operation under government management. The further advance of this policy within the boundaries of private enterprise, probably directed next to the railroad business, is thus made an almost certain element in national policy during the next few years.

APPLYING THE INCOME TAX

An interesting contribution to the history of the administration of the tariff law of October 3, 1913, and to the general literature of income-tax application has been afforded by a series of regulations for the application of the tax under a variety of different conditions. The bulk of these are found in Treasury decisions 1890, 1891, 1892, 1893, 1894, 1897, 1901, 1902, 1903, 1904, 1905, 1906, 1907, 1908, 1909, 1910, 1911, 1912, 1914, 1915, series of 1913, and a special compilation issued by the Commissioner of Internal Revenue on October 25, and preceding in point of time the other regulations already referred to. It is to the regulations, quite as much as to the law, that the student of income-tax history in the United States will turn in the future, particularly when analyzing the effects of the provision for "collection at the source," included, after so much futile discussion during the past summer, in the tariff act itself.